DEPARTMENT OF DEFENSE INTELLIGENCE INFORMATION REPORT

~~NATIONAL SECURITY INFORMATION~~
~~Unauthorized Disclosure Subject to Criminal Sanctions~~

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Classification/Control Markings

This report contains unprocessed information. Plans and/or policies should not be evolved or modified solely on basis of this report.

1. COUNTRY: ARGENTINA (AR)

2. REPORT NUMBER: (b)(3):10 USC 424

3. TITLE: (U) MILITARY WEAPONS-EFFECT OF U.S. EXPORT DISINCENTIVES; WEAPONS PROCUREMENT

4. PROJECT NUMBER: N/A

5. DATE OF INFORMATION: 790119

6. DATE OF REPORT: 790301

7. DATE & PLACE OF ACQUISITION: 790119, Buenos Aires

8. REFERENCES: (b)(3):10 USC 424

9. ASSESSMENT: SOURCE ___, INFO ___

10. ORIGINATOR:

11. REQUEST EVALUATION ___, DPQ ___ (country) (b)(3) 10 U.S.C. 424

12. PREPARING OFFICER: (b)(3) 10 U.S.C. 424

(b)(3):10 USC 424

14. SOURCE: Embassy telegram 0550, dtd 790117

15. SPECIAL INSTRUCTIONS:

ADVANCE REPORT - ~~FOR DEFENSE USE ONLY~~

DIRC YES ☐ NO ☒

16. SUMMARY:

~~(C/NOFORN)~~ This IR forwards a copy of an Embassy telegram titled Export Disincentives. While it deals with a broad range of loss of U.S. sales to Argentina (estimated at 3.5 to 4.0 billion dollars) it provides more specific details on expenditures by Argentina for foreign military equipment (estimated at more than 2.6 billion dollars).

Rec'd RDS-3B/ 15 MAR 79

COMMENT: ~~(C/NOFORN)~~ The significance is that: USG human rights policy cost U.S. business considerable money; and that USG arms control and conventional arms control and conventional arms transfer policies were not effective in preventing an Argentine buildup. What we appear to have done is exclude ourselves from being the nation which could, by virtue of sales and assistance, regulate the regional arms buildup and control regional stability. (See also IR ___ which reports Argentine decision

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17. SUBJECT AND AREA CODES:
3345 ARMS, EXPORTS, MIC
3430 ARMS, U.S. EXP, FIC, IS, INL, OF, CNT, ET, AU

18. DISTRIBUTION BY ORIGINATOR:
DIA (original)
DIA (DB-3E) (b)(3):10 USC 424
DIA (DB-4G4)
DIA (DB-4G1)
USCINCSO (w/o encl)

19. DOWNGRADING AND DECLASSIFICATION DATA:
~~CLASSIFIED BY: DIAM 58-11, Encl 3 5 Dec. 1978~~
~~DECLASSIFY ON: 1 March 1985~~

20. ENCLOSURES:
1 Enclosure
1. Embassy telegram 0550, DTG 191700Z Jan 79, 1 cy, 15 pgs ~~(C)~~

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21. This IR contains 2 pages.

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to get in the arms sales business.) Note that 500 tanks are shown as purchased from Germany. This is actually a joint German/Argentine development with licensed construction in Argentina. The Argentines probably would make 250-300 of these tanks available for sale in the arms market.

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TELEGRAM

CN 0550
1917002 JAN 79

INDICATE
☐ COLLECT
☐ CHARGE TO

FROM: Amembassy BUENOS AIRES
CLASSIFICATION: ~~CONFIDENTIAL~~

12065
E.O. ~~XGDS~~ ~~CDS 1/17/85 (Kelly, George L.) OR-G~~
TAGS: EFIN, ESTC, ETRD, EAID, AR
SUBJECT: Export Disincentives

ACTION: Secstate WASHDC

INFO: Amembassy BONN
Amembassy BRUSSELS
Amembassy BRASILIA
Amembassy KINGSTON
Amembassy LONDON
Amembassy MEXICO
Amembassy OTTAWA
Amembassy PARIS
Amembassy PORT OF SPAIN
Amembassy QUITO
Amembassy ROME
AMB Amembassy SAN JOSE
DCM Amembassy SANTIAGO
ECOM-4 Amembassy TEL AVIV
POL Amembassy THE HAGUE
POL/R Amembassy TOKYO
USICA USCINCSO QUARRY HTS. CZ
SCI (b)(3):10 USC 424
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REF: 78 STATE 317134

(Entire Text ~~Confidential~~)

1. SUMMARY: As a result of self-imposed disincentives to exports over a period of approximately 18 months ending

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(b)(3):10 USC 424;(b) ECOM/C:GLKelly/mp	1/17/79	226	DCM:MChaplin

CLEARANCES:
ECOM:JCAmott
POL:WHallman
SCI:CGMetzner
MILGP:ColRussell
AMB:RCastro RRE
(b)(3):10 USC 424

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September 30, 1978, US firms lost, or were prevented from effectively competing for, sales to Argentina amounting to between $3.5 and $4 billion. The largest share of this total is represented by Argentine arms purchases from third countries ($2.6 billion), for which the US could not compete under existing arms sales policy. Actions by USG in support of its human rights policy to deny export licenses or to oppose credit for Argentine projects affected potential exports of $1,065,150,000 (denial of licenses for munitions exports - $123 million; denial of validated licenses by Dept. of Commerce - $30.1 million; ExIm Bank credit delays or denials - $331.05 million; and US votes in multilateral development banks - $581 million). Argentina found alternative sources for credit and for virtually all goods, military or otherwise. US restrictions have neither prevented Argentina from girding for war nor coerced her to cease human rights violations. Principal immediate and long-term effect has been to damage seriously the image of US as a reliable source of goods and credit and to foster establishment of trading channels with third countries that will affect US trade with Argentina for years to come. END SUMMARY.

2. The following report is keyed to reftel. Within

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each category of disincentive, sections of response are designated (A) (Attainment of policy objective), (B) (Extent of export losses), and (C) (Impact on overall relations with GOA).

3. (I - Arms Control)

(A) Attainment of objectives - Although all actual denials of arms transfers to Argentina in FY 1978 were based on human rights grounds (see paragraph 7), ~~paragraphs 5 and 6 and~~ the enunciated conventional arms transfer policy worldwide effectively removed the US from consideration by Argentina as a source for many items. It would be very difficult to conclude that basic USG arms control policy reduced the threat to world peace and security equilibrium in Argentina and environs, as the GOA was able, with arms obtained from non-US sources, to prepare --apparently adequately-- for a possible war with Chile over the Beagle Channel dispute.

(B) Export Loss - Embassy is aware of following items (which must be regarded as a minimum listing; there were doubtless many more) purchased recently by Argentina from indicated countries. Not included are munitions purchases, believed to total several million dollars.

Vendor	Items	Cost (US$)
UK	147 Laser range finders	4,000,000
UK	26 IFF transponders	500,000

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UK	50 Gyro stabilized Doppler navigators	11,000,000
France	2 corvettes	200,000,000
France	Crotale AA missiles	10,000,000
France	Exocet missiles (ship to ship)	12,000,000
France	Etendard aircraft (to replace A4s)	Unknown
France	1 Roland missiles system	50,000,000
France	50 radio altimeters	1,000,000
France	9 Puma helicopters	81,000,000
France	60 Panhard armored cars	18,000,000
Netherlands	Fokker F-28 aircraft (2 or 3)	15,000,000
FRG	6 destroyers	900,000,000
FRG	4 submarines	800,000,000
FRG	500 tanks (joint FRG-Argentine development license)	250,000,000
FRG	2 patrol boats	1,800,000
Israel	26 Mirage V aircraft	190,000,000
Israel	100 Shafrir missiles	4,500,000
Israel	7 patrol boats (Dabur class)	15,500,000
Canada	50 bombing displays for A4 aircraft	8,500,000
Italy	9 Agusta helicopters	30,000,000
Austria	50 tanks (Panzerjager "K")	20,000,000

Total estimated costs: $2,622,800,000.

We are aware that many of the sales listed might not have

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been made by the US even had there been no restrictive policies, and also that some of above equipment could possibly not have been supplied by US because of non-availability in US inventory. Some of this might have been available, however, had US firms been allowed to manufacture and market arms without limitation.

(C) Impact on Relations - As in many Latin American countries, the military establishment, which in Argentina is synonymous with the Argentine Government, chafes at US arms transfer restrictions that prevent its acquiring weapons systems or supplies preferred over those of competing suppliers. In Argentine minds, however, it was our discontent over human rights which led to a US arms cutoff - our other arms limitations policies are not well known. See therefore paragraph 7 below.

4. (III - Foreign Corrupt Practices Act - FCPA)

(A) We have insufficient information on which to judge success of FCPA in eliminating illegal payments. However, comments reported under (B), immediately following, indicate that FCPA is inhibiting payments that might otherwise be made.

(B) Local representatives of US firms have informed Embassy (most recently in course of survey of impact of US dollar devaluation on trade) that one means widely employed by competitor-nation firms in overcoming US

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price advantage has been increased use of "dirty tactics" (including bribes), and that US firms inhibited by law (or principles) from using same tactics are clearly adversely affected. We have no way of estimating value of exports lost for this reason.

(C) FCPA per se has had no perceivable effect on our relations with GOA.

5. (IV - Anti-boycott and Antitrust)

We have no information on any direct or indirect effects on trade of US Anti-boycott or Antitrust laws.

6. (V - Reexports)

So far as we are aware, Argentina is not a center of diversions of US goods and technologies to prohibited destinations.

7. (VI.C. - Human Rights)

(A) Attainment of objectives - Actions taken to delay or prevent sales or to deny credits to Argentina have, of course, called the attention of GOA officials and the Argentine public to the USG wish to disassociate itself from repressive practices. There is no evidence that these disincentives have had any effect in furthering the US policy objective of an improvement in the actual observance of human rights. The disincentives have raised the visibility of the human rights issue but in the context of "a problem that we have with the USG,"

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~~internal Argentine affairs~~ and not with the result of furthering reasoned discussion within GOA of human rights issues. Reasons we believe export disincentives have not attained our human rights objectives are (1) the GOA conviction that actions we have objected to are justified and/or unavoidable in the context of the "dirty war" in which they occurred; (2) GOA resentment of US "meddling" in internal Argentine affairs, and GOA's inevitable reluctance to appear as appeasing such interference; (3) the fact that credits and nearly all goods are available from other countries anxious to supply them; (4) the existence of a $6 billion foreign exchange reserve (17 months imports) at the Argentine Central Bank and continuing favorable current account balances, and (5) fact that Argentines regard application of US human rights policy to their country as inconsistent with policy as applied to other countries. The GOA's strong economic position and high level of exchange reserves, together with the eagerness of other countries to supplant US as a supplier or lender has meant that economic coercion was effective in producing only irritation and occasional palliatives for USG consumption./ There are grounds to doubt that the economic sanctions have succeeded in conveying the precise political and ethical message the USG intended. The various rationales for voting against or abstentions on

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a variety of IDB, IBRD, and EXIM Bank applications are not perceived by the Argentine officials concerned -- or by the public -- as related to improvement or lack thereof on human rights abuses in Argentina. The fine-tuning at the US end is simply lost on Argentines who believe that the measures are wrong and interventionist in the first place. On the other hand, the ExIm Bank decision to consider financing of the Yacyreta project played a role in a significant human rights "success" of 1978: agreement by GOA to receive the Inter-American Human Rights Commission. Public diplomacy in all its aspects has been effective here in creating the desired public awareness of US and international attitudes, although it has not yet overcome widespread public apathy concerning the fate of the jailed and the missing. Our attempts at economic coercion can only by stretching the imagination be linked to concrete, individual human rights accomplishments in Argentina and may even have caused intransigence in quarters where the power to change the situation really lies.

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(B) Reduced exports - Available information shows that the US has lost exports or been effectively prevented from competing for sales to Argentina in the amounts shown below as a result of the application (for human rights policy reasons) of the indicated disincentives:

(1) Exports of Munitions - $123 million. (Foreign Military Sales (FMS) held up and never approved during FY 1978: $28 million; plus 212 Munitions List license applications for commercial sales disapproved during FY 1978 or allowed to expire on October 1, 1978: $95 million. Latter figure does not include advisory opinion requests on sales proposals. Note: There is probably some overlap of Munitions List denials on human rights grounds with examples listed in Paragraph 1 of exports lost to other countries under basic arms controls.)

(2) Commerce Export Controls - $30.1 million: Computerized vehicle dispatch and control system for Rosario police ($3,400,000); Marine propulsion turbine engines from General Electric for Argentine frigates to be built in FRG ($26,700,000) (Sale of engines was lost despite last minute grant of export license.)

(3) ExIm Bank Credit Delays or Denials - $331.05 million. Telephone switching equipment ($200 million); radio linkage systems ($20 million); telex modems ($3 million);

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steel making equipment (two separate sales) ($50 million); steam boilers ($9 million); railroad signaling equipment ($9 million); oil drilling equipment ($5 million); oceanographic equipment ($9 million); methanol plant ($15 million); microwave equipment for Argentine PTT ($11,050,000).

(4) US Votes in Multilateral Development Banks - $581 million. (Note: Figures given for loans are not equivalent to potential US exports affected. Exports could have been even more in those cases in which loans cover only a fraction of the total value of the project.) The following loans are listed as a probable trade loss because US bidders on the resulting projects are severely handicapped at the start by the disapproval expressed by the US Government through its abstention or its negative vote. All loans were approved despite US actions.

IDB - Celulosa Argentina paper project ($54 million); IFC credit for soybean processing plant ($7 million); IBRD - industrial credit ($100 million); IDB - gas pipeline ($36 million); IDB - petrochemical complex ($105 million); IFC credit for cement project (9 million); IBRD - agricultural credit project ($60 million); and IDB - Yacyreta hydro power project ($210 million).

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Grand total of 1,2, 3, and 4, above is $1.065 billion. These are known cases but there are probably many more. We know from frequent comments by affected US businessmen and local representatives of US firms that the volume of exports lost because of delays or denials related to human rights policy have influenced Argentine buyers who had previously encountered inconvenience and delay to ignore the US as a source rather than risk further annoyance or refusal. Knowledge that USG financing would not be available if requested places US firms at disadvantage when competing with foreign firms able to offer attractive price package including financial backing by their governments.

Examples: -- In the case of the Yacyreta hydro power project, although the ExIm Bank reversed its position and issued a letter of interest, the initial denial by ExIm and the US abstention from the IDB vote for Yacyreta on human rights grounds have alienated many Argentine decision-makers, discouraged potential US bidders, and could eventually cause losses of hundreds of millions of dollars in exports on this project alone. -- Following the US vote against an IDB loan for a gas pipeline in southern Argentina, the Embassy heard that Argentine annoyance at the US vote played a key

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role in our subsequent loss (despite a lower bid by the US firm) of this project to a French firm.

-- When the delays and denials in munitions control cases on human rights grounds made it evident that the US was no longer a reliable source, a leading Argentine representative of foreign firms (with many long-standing ties with major US firms) made a special trip to the UK to seek alternative suppliers of electronic and other types of military equipment.

-- Embassy was told by a leading US supplier that a directive was issued within the Argentine Navy that non-US sources should be used to extent possible for all items because of problems with US as a supplier.

-- Although Excon license was issued at last minute for marine turbine engines for frigates to be built in FRG, General Electric lost the sale because of the momentum developed toward alternative sourcing during the long period of delayed US action. The Argentines, after experience over the preceding year with unavailable US export licenses, had demanded that this one be obtained before GE could sign the turbine contract. (Although there was strong hint of bribery by successful bidder in this case, GE representatives believed that they could have made the sale if Excon license had been available at start of negotiations.)

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-- Another cliff-hanger (which apparently turned out favorably for US) involved the suspended preliminary commitment for financing by ExIm Bank of dredging of Buenos Aires harbor by Great Lakes Dredge and Dock. Great Lakes would have lost to Japanese or Dutch competitors without ExIm backing. Although we have not had final confirmation that papers have been signed, Great Lakes informed us in December they had definitely secured contract for this $42 million-plus project.

~~(C)~~ Relations with the Government - The withholding or refusal of licenses for the shipment of munitions list items under Sec. 502B of Foreign Assistance Act (and in part in anticipation of the September 30, 1978 deadline for application of the Humphrey/Kennedy Amendment) subjected US-Argentine relations to considerable strain. It did not, however, lead to a request for the departure of the Military Group or to other than muted official denunciations of the US human rights policy in general terms. Congressional delegations and other US officials interested in investigating human rights matters in Argentina have been received courteously and given access to top officials here. There is a pervasive concern in Argentina at all levels for the nation's favorable international image, accompanied by deep-seated private

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resentment, particularly in military circles, at what is seen as discriminatory application of the US human rights policy. The Humphrey/Kennedy Amendment itself will be a source of friction even though the supplies embargoed are being purchased elsewhere. The US stand in the IBRD and the World Bank is thought to be in violation of the charters of both institutions and, of course, damaging to Argentina's reputation, though not to its economic development prospects.

8. (VI.F. - Terrorism) Not applicable to Argentina.

9. (IX - Nuclear) Our tough nuclear policy has caused Argentina to reach out to other suppliers for equipment and services, but so far as we are aware, US has not to date denied export to Argentina of any goods or technology on ground that it would contribute to nuclear weapons capability. Heavy water production technology is under consideration if Argentina meets US requirements. (The export of highly enriched uranium (90%) to Argentina for use in its research reactors will be restricted in the future due to regulations under the Nuclear Non-proliferation Act.)

10. (X11 - Extra-territorial) (1 - Reexports) We are not aware that Argentina is either a conduit or destination for US-origin goods or data being diverted in violation of US export controls. However, in

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connection with development noted in following sub-paragraph, it would be reasonable to assume that the temptation to divert would have been felt by US firms prevented from supplying Argentine buyers direct from US and possibly by Argentine buyers determined (for reasons of price, lack of acceptable substitutes, etc.) to obtain US items despite US export controls. (2) We have no precise information on imports into Argentina from foreign subsidiaries of US firms as alternatives to procurement from US, but local businessmen have told us that US foreign subsidiaries are among the obvious alternative sources of goods that cannot be shipped to Argentina from US. Danger to US exports of this trend is that channels of distribution established in reaction to US disincentives will tend to survive for years after foreign importers learn they can get equivalent or acceptably similar goods from other sources without paperwork and delays involved in US purchases.

11. (XIII - Delays in Processing Export Licenses) Covered by portions of paragraphs 3, 6 and 7.

12. (XIV - Hazardous Substances) We have no information on effect controls on exports of hazardous substances may have had on US/Argentine trade.

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